PepsiCo, Inc. Annual Report 1972

About this report

PepsiCo's successful performance in 1972, like that of any leading company, was primarily a function of three principal assets: *people, ideas and things.*

The management of our operating divisions employ the benefits of an on-going program of executive recruitment, development and advancement. Each has a balanced team that includes seasoned industry veterans with a wealth of company experience, complemented by trained professional management specialists whose proven ability in other fields is now being applied to our business.

With the aid of intensive analysis of its consumer market, trade environment, merchandising techniques, product and packaging mix, and the economics of production and distribution, the management must develop the marketing concepts needed to make the most effective and affordable use of available resources.

To assure that the range of products and services continues to reflect evolving consumer needs and preferences, we have modified a number of items, added to existing lines, eliminated marginal products, and explored new opportunities by the acquisition of established brands to which we can profitably apply our funds, talent and marketing abilities.

This report highlights some of the people, the ideas, and the things we sell that have combined to give the company its most successful year.

On the cover:
PepsiCo, Inc., World Headquarters in Purchase, New York

Financial Highlights*

Net Sales in 1972 were $1,400,115,000, a 13 percent increase over $1,239,127,000 in 1971.

Earnings in 1972 were $71,718,000, compared with $63,031,000 for 1971.

Earnings Per Share were $3.05, or 13 percent over $2.71 for 1971.

Average Shares Outstanding were 23,525,000 for 1972 and 23,248,000 for 1971.

Dividends paid were $23,324,000 for 1972 and $22,895,000 for 1971.

Plant and Equipment Expenditures were $56,632,000 in 1972 as compared with $54,047,000 for 1971.

Depreciation and Amortization were $33,996,000 and $30,077,000 for 1972 and 1971, respectively.

Shareholders' Equity increased to $440,768,000 at the end of 1972, compared with $384,032,000 for 1971.

*Throughout this report, 1971 has been re-stated for the acquisition of Monsieur Henri Wines, Ltd., accounted for as a pooling-of-interests.

To the Shareholders:

In 1972, your Company's sales and earnings again reached new highs.

Sales rose 13 percent to $1.4 billion. Earnings were $71.7 million, an increase of 14 percent. Earnings per share rose 13 percent to $3.05 per share, from $2.71 for 1971. The fiscal year 1972 includes fifty-three weeks, compared to fifty-two weeks for 1971, which did not have an appreciable effect on our performance for the year.

Each line of business we are engaged in—beverages, snack foods, sporting goods, transportation services and leasing—continues to show a strong growth trend, and your company continues to occupy an important position in each. The corporate goal of ten percent growth was again exceeded, with each line of business making a significant contribution.

In the beverage line, Pepsi-Cola continues to increase its share of market, particularly in food stores. The line has been broadened by the acquisition in August of Monsieur Henri Wines, Ltd., a leading importer of wines and other beverages from various countries, with present distribution concentrated in the Northeastern U.S. We foresee significant long-term growth in this rapidly expanding field.

In November 1972, your Company made public announcement of the fact that plans had been completed for Pepsi-Cola to become the first American consumer product to be produced, marketed and sold in the Soviet Union beginning in 1973.

As a simultaneous announcement to U.S. bottlers stated, the agreement has historic significance as "a breakthrough in terms of world trade, better understanding between our two nations, and the ultimate improvement of prospects for world peace."

Technicians have begun work on arrangements for bottling operations, expected to commence during the year. The future volume opportunity is promising, but will be limited according to the agreement by our sales of Soviet products in America.

The nationally advertised brands of the Frito-Lay snack food line were again the performance leaders in their field, and were—along with soft drinks—among the fastest growing products sold in food stores.

During the year, acquisition of the minority interest in Wilson Sporting Goods was completed. A number of new product innovations, combined with effective cost controls, produced excellent results from Wilson's operations.

In the Transportation division, northAmerican Van Lines continues to show growth in revenues and earnings.

Our international business continues to show good progress. Soft drink operations in the countries of Eastern Europe have shown particular success. At present, our overseas sales of sporting goods, transportation, leasing

services and snack foods are relatively small contributors, but we have made a very strong start in the international snack food market and anticipate important growth in this field as we expand our activities. Full recognition of the tremendous potential for continued expansion in markets outside the U.S. is in the forefront of our planning for the future.

Along with others who believe in freedom of trade, we will continue to oppose legislative attempts to restrict investments outside the U.S., which some support on the false assumption that such activity hurts domestic employment. A number of objective and reliable studies have shown that multinational companies have increased their rate of domestic employment faster than the economy as a whole, and we believe that expanded international trade and investment are in the best interest of all of us as citizens, and as shareholders and employees of a multinational company.

Following a successful tender offer, eighty-two percent of the common stock of Rheingold Corp. was acquired for approximately $60 million (including expenses). This transaction, completed in late 1972, is included in the 1972 consolidated balance sheet as an investment and there was no effect on the income statement.

A portion of Rheingold's soft drink business consists of the manufacture of concentrates for flavored products, accounting for less than two percent of sales. The Federal Trade Commission has registered an objection to our purchase of a competitive concentrate manufacturer, and to date our efforts to satisfy the FTC have not been successful. Management has assigned a high priority to concluding matters related to the acquisition, and improving the per-

"I have long believed that trade between nations could help to build bridges of greater understanding between different cultures and economic systems. We're especially proud that Pepsi-Cola, as the first American consumer product sold in the Soviet Union, will have the opportunity to contribute to a widening of our peaceful contacts with the Soviet people."

Donald M. Kendall
Chairman and Chief Executive Officer, PepsiCo, Inc.

formance of the four important Pepsi-Cola franchises owned by Rheingold.

We note with pride that 1973 marks the 75th anniversary of the registration of the trademark "Pepsi-Cola" by the original Pepsi-Cola Company, founded by Dr. Caleb Bradham of New Bern, N.C. We salute the Pepsi-Cola bottlers in America and throughout the world whose steadfast dedication has built the product into a universal symbol of friendship and refreshment, and to all employees of the organization for their continued effort and many contributions through the years.

We regret the retirement of Mr. Charles Allen, Jr., from our Board of Directors. Mr. Allen has reached the mandatory retirement age. Since his election in 1955, Mr. Allen has served with vigor and distinction.

Based upon confidence in our continuing performance, the Board of Directors has voted an increase in PepsiCo's dividend, beginning with the March 30 quarterly payment, from $1.00 to $1.08 per share on an annual basis. This increase of eight percent is compatible with the government's recommended guidelines.

We look ahead with confidence because of our strong management team and the favorable growth trends of our product lines.

Donald M. Kendall

Donald M. Kendall
Chairman and Chief Executive Officer

Andrall E. Pearson

Andrall E. Pearson
President

March 12, 1973

"Almost any well-managed company can better its own past year's sales performance, but when you increase your share of market—as each of our divisions did last year—you achieve something far more important: real competitive growth."

Andrall E. Pearson
President
PepsiCo, Inc.

Operations Review

During 1972, the management of PepsiCo and its divisions continued to pursue an overall corporate objective of strong orientation toward the consumer—discovering by means of objective research the actual needs and wants of the marketplace and creating appropriate responses in terms of products, packages and marketing approaches.

Pepsi-Cola appealed to the consumer's demand for value—quality, at a favorable price—by introducing several packages offering larger quantities of product per purchase, generally at a lower unit cost. One of the most successful is a 32-ounce returnable bottle with a twist-off resealable cap—a package that appeals to budget-conscious homemakers because of its economy, and to environmentalists because the package is reusable. Now available to nearly half the U.S. population, this quart package has been especially effective where bottlers have offered it in a six-pack carton, because (as was demonstrated long ago with smaller sizes) the use of multi-unit packages places more product per given purchase into the home to be consumed before the next regular shopping trip, and encourages the return of deposit bottles for redemption and a repeat purchase. The economics of larger-size packages give bottlers an effective value to counter competition, including private label products, generally available only in smaller sizes. Another packaging innovation de-

"The vertical stacking display technique our bottlers are using to create a 'Pepsi presence' in store beverage displays is helping us move toward leadership in this important segment of the market."

John Sculley
Senior Vice President
Pepsi-Cola Company


PEPSI

signed to stimulate quantity purchases is the 12-pack carrier for canned products.

Extensive studies of food store outlets have led to innovative merchandising techniques designed to increase consumer preference for Pepsi-Cola products. Such studies show increased awareness of the Pepsi-Cola brand when our full range of package sizes and types are displayed together as a unified group, rather than mixed with rival brands according to package size and type. Bottlers who have used this "vertical stacking" concept, therefore, have heightened the visual impact of their store displays, and the increased "impulse buying" generated by this enhanced "Pepsi presence" has contributed to a marked improvement in our share of the cola market in food stores.

The plastic bottle developed for Pepsi-Cola products is a response to the consumer's concern about waste container disposal. Our plastic bottle is highly compatible with current waste disposal techniques (incineration, landfill) and is unbreakable in falls of up to four feet. During 1972, a seven-month wide-area market test was conducted of a 16-ounce version of this bottle, in the State of Michigan. Indications in terms of sales and share performance were favorable; the test results are now being further evaluated from the standpoint of production economics to determine the package's eventual feasibility.

Pepsi-Cola was able to effect further economies in production, by placing in operation a facility in Howell, Michigan,

"Our research and development facility is the best in our industry. But more important is the fact that it's directly responsible to our marketing department. That way, in one package we have input data about the needs of the market and our resource to answer those needs. That's one reason we have such an outstanding track record in new product introductions."

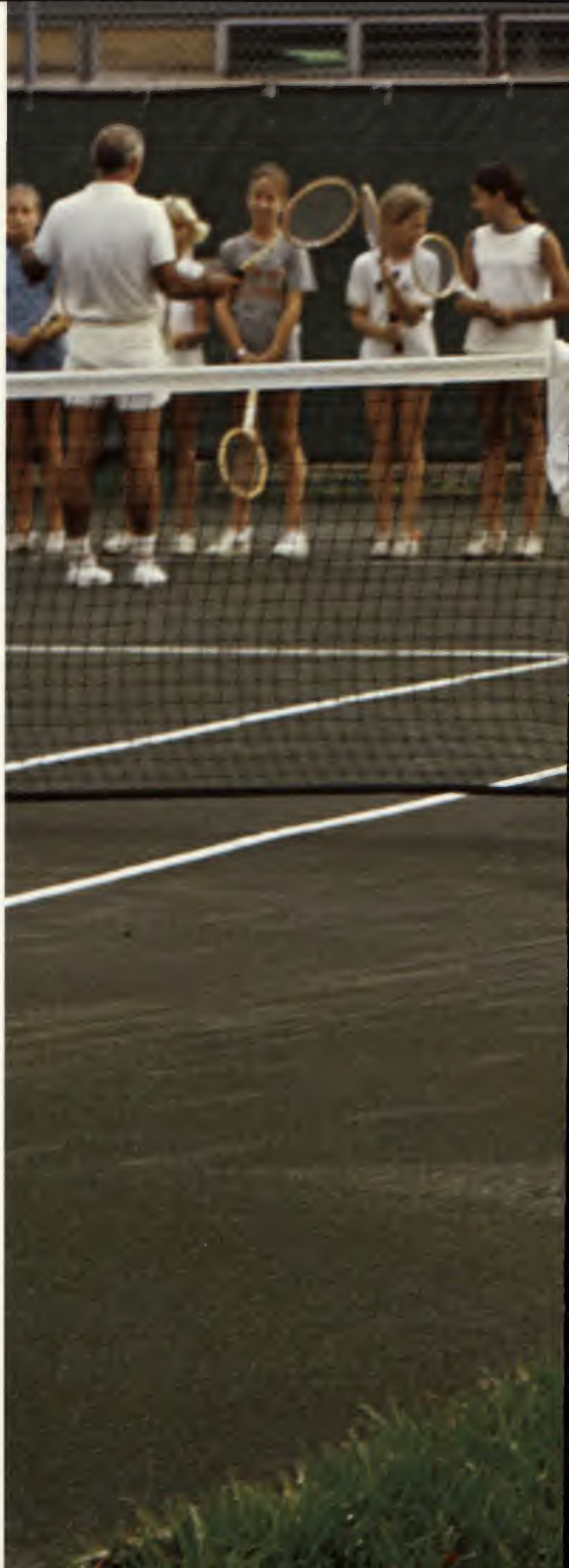
Darrell Agee
Senior Vice President
Frito-Lay, Inc.

which not only produces canned product for the entire complex of company-owned plants in the State of Michigan, but also fabricates the cans themselves. The substantial cost saving realized through this self-manufacture approach will eventually be extended to other areas now under study for similar installations.

The Frito-Lay division's research and development function is an integral part of the marketing department. Thus, there is a close relationship between input data from the marketplace and the technical facility which creates the proper response. In this system, capital investment in experimental products is minimized; small pilot plants produce limited quantities of prospective new products for testing in isolated market areas, and necessary product modifications indicated by consumer tests can readily be made on a low-risk basis prior to making the heavy commitments required for a nationally marketed new product. About one-third of the division's 1973 volume will be in products thus developed during the past decade.

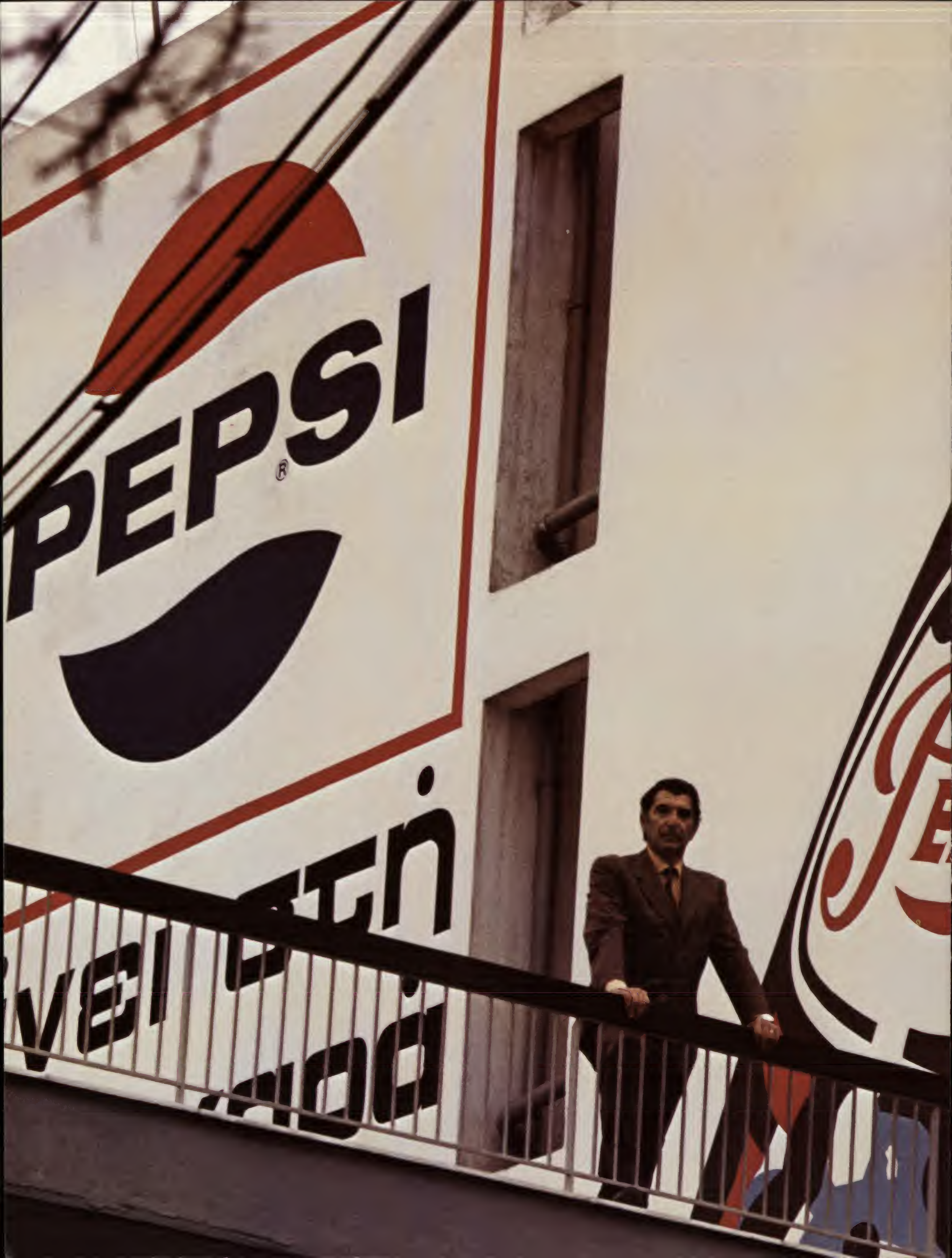
In 1972, national distribution was completed of Munchos brand potato crisps and nacho cheese-flavored Doritos brand tortilla chips. Two other new products were placed in test markets: Frenchips brand potato fries and Bacon Nips brand imitation bacon-flavored wheat chips. Results to date show excellent promise for both.

A lesser known, but very important, component of the division's research facility is its agricultural program, now



"We all remember when tennis used to be a rich man's sport. No more—the boom in available public courts and a well-made but inexpensive racket like this one put the game within reach of a whole new market: the kids."

Don McCulloch
Business Manager, Tennis
Wilson Sporting Goods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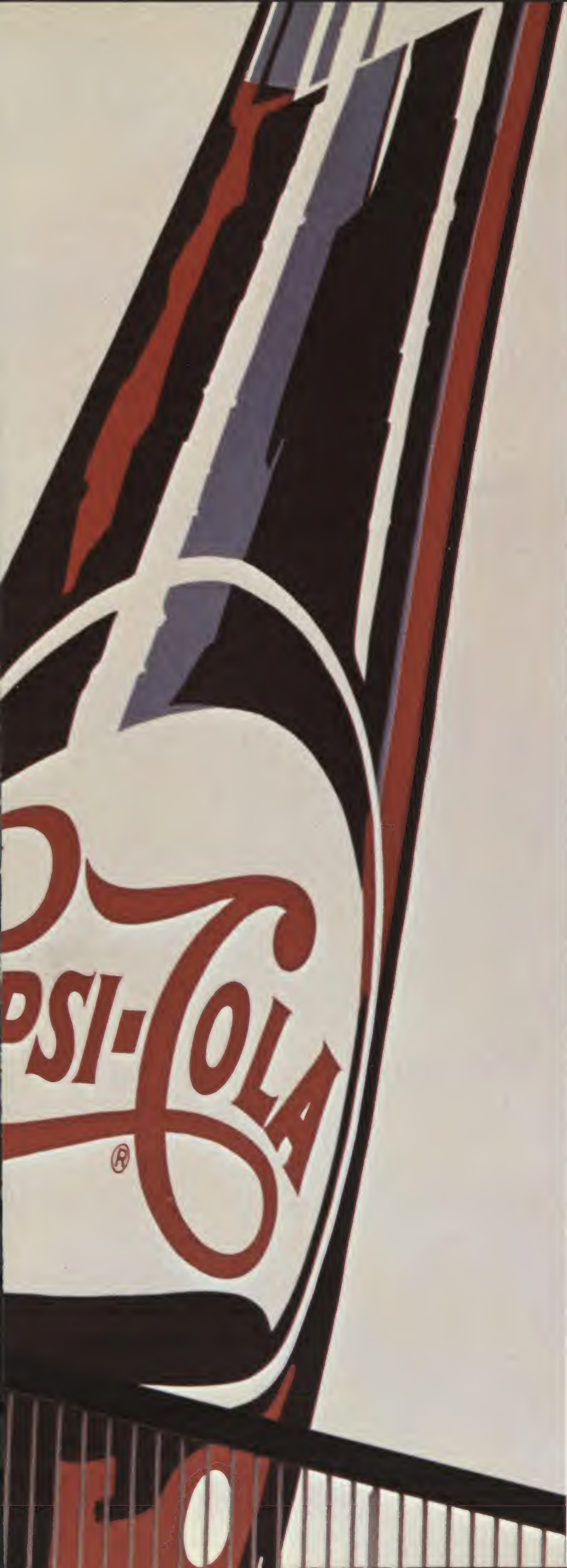

in its second decade. Frito-Lay maintains the world's largest potato genetics program—larger even than the Federal government's—and is now reaping quality and cost efficiency benefits by the use of its own specially developed potato varieties.

Increased Frito-Lay production capacity was added during 1972 with the opening of new plants in Vancouver, Washington, and Salisbury, North Carolina, and the addition of new lines at existing facilities in Allen Park, Michigan; Cucamonga, California; and Topeka, Kansas. Other plants are nearing completion.

PepsiCo International, as did the domestic beverage division, increased its share of market during the year. It now serves consumers in over 125 countries and territories throughout the world.

During the past year, new bottling plants went into operation in the following locations: Sincelejo, Colombia; Salta and Posadas, Argentina; Tuffley, England; Jutland, Denmark; Shiraz, Iran; Krugersdorp and Tzaneen, Republic of South Africa; Krakow, Poland; Pusan, South Korea; Vientiane, Laos; Napier and Pahiatua, New Zealand; and Port Vila, New Hebrides.

In addition, the company completed a new soft drink concentrate manufacturing plant in Caracas, Venezuela, and

"Even before we opened our new plant here in Greece, we dominated Athens with Pepsi-Cola identification. That helped us win almost instant public acceptance for a totally new product."

Kadry Mahmoud
Area Vice President
PepsiCo International

opened a major snack food production facility in Guadalajara, Mexico.

Providing a focus of identity and leadership for a world-wide program promoting Pepsi-Cola's interest in young people and the world's most popular sport, soccer, PepsiCo International signed the internationally famed Brazilian star, Pelé, to make a series of instructional films and a limited number of carefully selected public appearances.

Demonstrating concern and support for local social objectives is part of the role of Pepsi-Cola organizations in communities everywhere. As one recent example, Pepsi-Cola South Africa announced in 1972 that it had become a full participating partner in the American-South African Study and Educational Trust (ASSET), which provides funds for the education of needy non-white young people.

Late in 1971, PepsiCo acquired an established snack food company in Spain. This year, with the aid of sales and production specialists, it introduced full-service selling and modern procedures to control quality and freshness. Under its new ownership this company, now known as Productos PepsiCo, S.A., has doubled its sales force, has successfully introduced two new products, has greatly expanded its distribution area, and has increased its sales volume by 38 percent.

In 1972, northAmerican Van Lines, to provide improved customer service and make possible more efficient utiliza-

"One of the most important elements of the moving business is knowing where your trucks and goods are—so you can reassign your equipment and men properly, and so you can tell the customer when he wants to know. This new computer system helps us instantly locate shipments it might otherwise take us hours or even days to trace. That's important for our costs—and because a satisfied customer will call you for his *next* move."

Robert Hurbanis
Vice President, Operations
northAmerican Van Lines


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tion of the equipment and manpower of its 600 domestic and 300 overseas affiliated agents and contractors, placed in service a new computerized information retrieval system which is the most comprehensive and advanced in its industry. The system offers access to file information from all related departments concerning the movement of some 4,000 agent moving vans and 120,000 individual in-transit shipments; the information is available, from a central memory bank, for immediate display on 80 terminals located at NAVL central dispatch headquarters in Fort Wayne, Indiana —where more than 6,500 inquiry calls are handled daily.

This system will pay for itself during its first year of service through better operating efficiency, and will provide greatly improved consumer relations by making available more timely and accurate information in response to customer inquiries.

Other services offered by the Transportation division, through National Trailer Convoy, include the movement of mobile homes and prefabricated housing components and materials.

Wilson Sporting Goods recorded another year of major improvement with its established brand items. In addition, it expanded its product line during the year with the introduction of these five major new products: the Wilson 1200 professional golf clubs; the Wilson Staff LD golf ball; the Wilson T-3000 steel tennis racket; the Wilson Red W tennis clothing

"Each crate in this containerized shipment holds 1,000 cases of product. New cost-saving shipping techniques like this are important for the profitability of a low-priced, mass-market product like our Yago Sant'Gria—one of the largest-selling imported table wines in America. They'll help our profit picture for Stolichnaya vodka, too."

Frank Feinberg
Vice President, Marketing
Monsieur Henri Wines

line; and the Dick Butkus youth football set. In addition it made significant improvements in the 1973 Wilson Staff golf clubs, its golf bags, and its moderate-priced baseball gloves and tennis rackets.

In reaching out for even broader market acceptance for all its brands, Wilson strengthened its appeal to the younger consumer group, with excellent results.

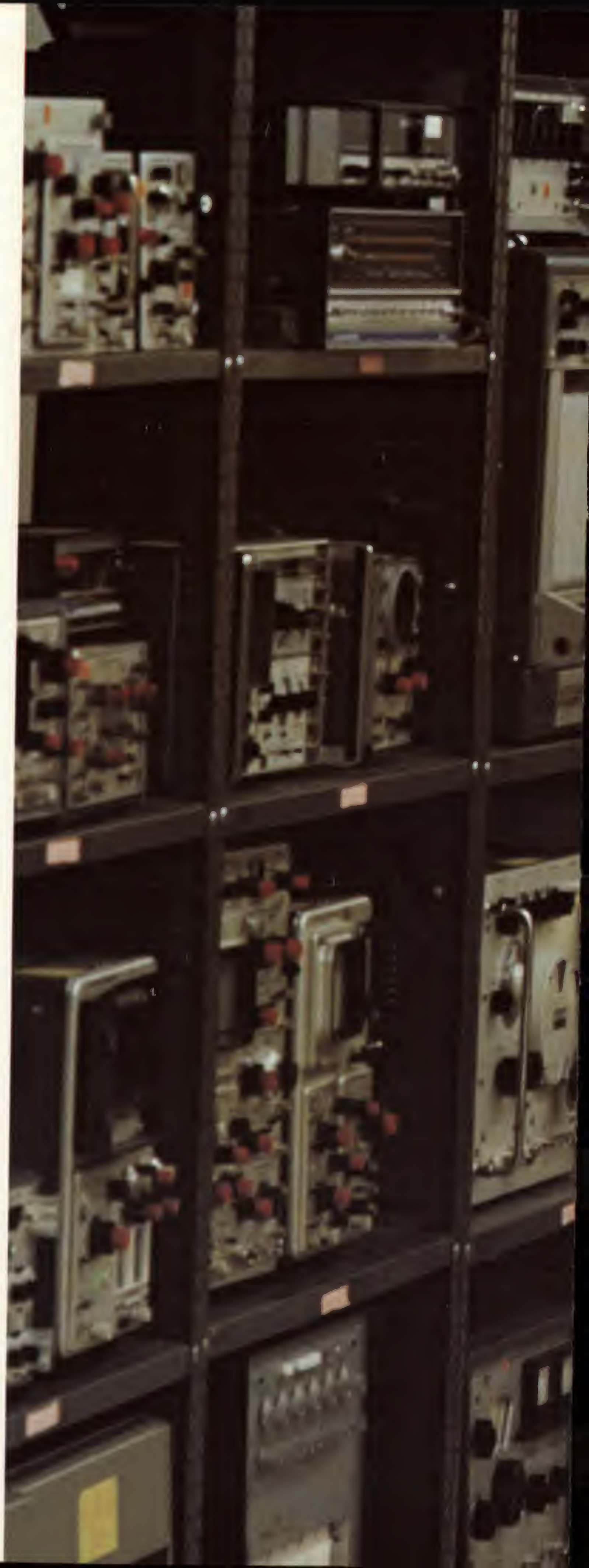
Several leading sports figures joined the Wilson professional staff during the year, including Alan Page and Jim Plunkett of the National Football League; Chris Evert, the young woman tennis star; and Jocelyn Bourassa, the Canadian woman who led first-year players in the Ladies' Professional Golf Association.

The activities of PepsiCo's Leasing division are related to the leasing and rental of the following items: plant automation equipment, hospital equipment, material handling equipment, machine tools, electronic production test devices, office and data processing equipment, and aircraft. Other subsidiaries conduct full maintenance truck leasing on a long-term basis; PepsiCo Truck Rental is engaged in short- and long-term truck rental.

The financial section of this report gives explanatory details regarding a recent refinancing of major segments of these leasing activities. With this new financing structure and with good management control, our leasing activities will con-

"In recent years there's been an explosion in the number of highly sophisticated and expensive devices like these available for industry. Not every company can afford to buy all the electronic hardware it needs, but our Rental Electronics subsidiary puts it within reach."

Stillman Brown
President
PepsiCo Leasing



tinue to grow and to build a more satisfactory return on investment.

In 1972, PepsiCo acquired Monsieur Henri Wines, Ltd., a major importer of a broad selection of wines ranging from the moderately-priced to the more expensive table varieties. Its best known and most popular product, especially among younger consumers, is one of the two largest-selling imported table wines sold in America, Yago Sant'Gria—sales of which passed the million-case mark in 1972.

Monsieur Henri is already the growth leader of the rapidly expanding wine industry, with a 1972 sales gain of more than 80 percent, better than four times the industry's average rate. Several developments promise further gains: during the year, the nationwide sales organization was doubled, and construction has begun in Spain of an expanded facility capable of increasing the annual output of Yago Sant'Gria to nearly five million cases.

Monsieur Henri is the sole American importer of Russian vodka. The agreement under which Pepsi-Cola will be sold in the Soviet Union is expected to enhance Monsieur Henri's sales of this product. Inaugurating a nationwide marketing effort on its behalf, Monsieur Henri began national advertising for Stolichnaya vodka in December 1972.

"The following is a report on our financial result. The year 1972 was a major milestone in our growth in both sales and earnings as well as furthering our financial strength. The records set give us confidence as to our future."

Herman A. Schaefer
Executive Vice President
Finance and Administration

Financial Review

Revenues & Earnings. Both revenues and earnings set new records for the fifty-three week fiscal year ended December 30, 1972. Sales rose to $1.4 billion, an increase of 13 percent from 1971. Net income rose 14 percent to $71.7 million. Thus, the after-tax profit margin increased slightly as a result of higher volumes and continued gains in efficiency and cost savings. Earnings per share, before extraordinary items, for the last five years are as follows:

1968	$2.10
1969	2.33
1970	2.49
1971	2.71
1972	3.05

The average compound growth rate in earnings per share from 1967 to 1972 was 9.6 percent. In 1972, the growth in earnings per share was 13 percent.

All of PepsiCo's lines of business made progress in 1972, and exceptional gains were made in the food, sporting goods, and leasing lines.

Sales and Revenues

	1972	1971	1970	1969	1968
Beverage	45%	46%	46%	52%	54%
Food	30	29	29	32	31
Transportation	10	10	11	12	13
Sporting Goods	10	10	9	—	—
Leasing	5	5	5	4	2
Totals	100%	100%	100%	100%	100%

Contribution before taxes and corporate interest and expenses

	1972	1971	1970	1969*	1968
Beverage	58%	61%	63%	65%	67%
Food	26	25	24	22	20
Transportation	7	7	7	8	8
Sporting Goods	7	6	6	—	—
Leasing	2	1	—	5	5
Totals	100%	100%	100%	100%	100%

See notes under Historical Financial Information on Page 34.

*Before extraordinary items.

International operations. PepsiCo's operations outside the United States for the two years 1972 and 1971 were 19 percent of total world-wide sales and revenues, and 23 percent and 24 percent, respectively, of total contribution to income before taxes and corporate interest and expenses.

Efforts to protect foreign assets against the effect of devaluations, especially in Latin America, as well as revaluations were successful, and resulted in no significant effect on 1972 results. Continued turmoil in the international monetary scene dominated by a dollar devaluation in February of 1973 affected many of the currencies of countries in which PepsiCo operates. While the outcome of the world monetary system is somewhat uncertain, indications are that more flexible exchange rates will assist in preventing such disturbances in the future.

Debt. During 1972, PepsiCo took further steps to simplify, provide additional flexibility and to extend the average maturity of its debt.

The major transaction was an arrangement made with a group of multinational banks to provide up to $58,500,000 (available either in dollars or Eurocurrencies) for a period of up to ten years. In addition, the Company continues to maintain appropriate bank lines of credit and has substantial unused credit-availability on a global basis.

A relatively small amount of additional debt was incurred to provide the cash required to finance capital expenditures, to purchase the remaining minority interest in Wilson Sporting Goods Co., and to invest in 82 percent of the common stock of Rheingold Corp.

At year-end 1972, total consolidated debt was $258,000,000, or $16,000,000 greater than at year end 1971, while shareholders equity increased during the year $56,736,000 to $440,768,000, reflecting a continued strong financial position for PepsiCo.

	1972	1971
	(in thousands)	
Current borrowings—domestic	$ 2,411	$ 2,304
—foreign	43,185	37,878
Total current	45,596	40,182
Long-term debt—current	4,954	4,022
—non-current		
—senior	152,322	113,176
—subordinated	54,731	85,000
Total long-term debt	212,007	202,198
Total interest-bearing debt	$257,603	$242,380

(See note 5 on page 30 for additional details.)

Capital Expenditures. During 1972, the Company (exclusive of leasing subsidiaries) invested $56,632,000 in capital projects, slightly more than the $54,047,000 spent in 1971. Most 1972 capital expenditures were made for a broad spectrum of plant expansion, plant modernization, and cost reduction projects. Other expenditures were for additions and replacements to the distribution and transportation fleets and to the soft drink vending machine program. In view of the increasing growth opportunities available to the Company, capital spending for 1973 is estimated to be $75,000,000 to $80,000,000 involving a larger number of very similar projects to those undertaken in 1972.

Investment in Leasing Subsidiaries. About two-thirds of the Company's $72 million investment in leasing is represented by equity in and advances to PepsiCo Leasing Corporation, a subsidiary engaged in the leasing and rental of a wide variety of equipment.

In January 1973, PepsiCo Leasing Corporation completed a financing arrangement with a group of banks for $130 million of unsecured debt. The proceeds of the new financing were used to prepay existing debt and to provide for future growth. There was a significant improvement in the return on investment in the Company's leasing activities during the year.

The remaining one-third of the total investment is similarly represented by PepsiCo Truck Rental Inc., Target Fleet Corp. (formerly LPI Transportation Corporation), Mobilease, Inc. and Pepsi-Cola Equipment Corporation.

During the year Lease Plan, Inc. and Executive Car Leasing Company, the company's two car leasing subsidiaries, were sold. Together these companies had approximately $159,601,000 in leases and other assets and $145,856,000 in notes and payables.

Consolidated Statement of Income and Retained Earnings (in thousands)

PepsiCo, Inc. and Subsidiaries
Years ended December 30, 1972 (fifty-three weeks) and December 25, 1971 (fifty-two weeks)

	1972	1971
Revenues		
Net sales	$1,400,115	$1,239,127
Interest and other income	20,977	17,811
Total revenues	1,421,092	1,256,938
Costs and Expenses		
Cost of sales	749,254	670,751
Marketing, administrative and other expenses	530,063	458,716
Interest expense	14,351	14,675
Total costs and expenses	1,293,668	1,144,142
	127,424	112,796
Provision for United States and foreign income taxes (including deferred: 1972—$4,300; 1971—$9,916)	58,241	50,583
	69,183	62,213
Equity in net income of leasing subsidiaries	2,535	818
Net Income	71,718	63,031
Retained earnings at beginning of year (restated for pooling of interests)	305,425	265,289
Cash dividends ($1.00 per share)	(23,324)	(22,895)
Retained earnings at end of year	$ 353,819	$ 305,425
Net Income Per Share	$3.05	$2.71

See accompanying notes.

Consolidated Balance Sheet (in thousands)
PepsiCo, Inc. and Subsidiaries
December 30, 1972 and December 25, 1971

	1972	1971
Assets		
Current Assets		
Cash	$ 17,042	$ 33,202
Short-term securities (approximates market)	77,052	67,344
Notes and accounts receivable, less allowance	140,514	120,158
Inventories	134,016	114,017
Prepaid expenses	16,094	14,124
	384,718	348,845
Investments and Long-Term Receivables		
Leasing subsidiaries—at equity	72,192	89,376
Rheingold Corp.—at cost	59,947	—
Long-term receivables and other investments	14,376	13,906
	146,515	103,282
Property, Plant and Equipment, at Cost		
Land	21,653	20,997
Buildings	119,888	112,074
Machinery and equipment	318,232	286,773
Bottles and cases	52,459	50,701
	512,232	470,545
Less accumulated depreciation	189,404	168,617
	322,828	301,928
Goodwill—cost in excess of net assets of companies acquired	63,688	67,190
Other Assets	17,803	12,557
	$935,552	$833,802

See accompanying notes.

	1972	1971
Liabilities and Shareholders' Equity		
Current Liabilities		
Notes payable (including current installments on long-term debt)	**$ 50,550**	$ 44,204
Accounts payable and accrued liabilities	**139,665**	112,195
United States and foreign income taxes	**33,322**	29,197
Customers' deposits on bottles and cases	**13,164**	13,233
	236,701	198,829
Long-Term Debt	**207,053**	198,176
Other Liabilities and Deferred Credits	**13,730**	8,597
Deferred Income Taxes	**37,300**	33,000
Minority Interest	**—**	11,168
Shareholders' Equity		
Capital stock, par value 16⅔¢ per share; authorized 30,000,000 shares; issued and outstanding 1972—23,564,336 shares; 1971—23,372,139 shares	**3,927**	3,895
Capital in excess of par value	**83,022**	74,712
Retained earnings	**353,819**	305,425
	440,768	384,032
	$935,552	$833,802

Consolidated Statement of Changes in Financial Position (in thousands)
PepsiCo, Inc. and Subsidiaries
Years ended December 30, 1972 (fifty-three weeks) and December 25, 1971 (fifty-two weeks)

	1972	1971
Financial Resources Provided:		
Operations		
Net income	**$ 71,718**	$ 63,031
Depreciation and amortization	**33,996**	30,077
Deferred income taxes (including tax benefit from leasing subsidiaries)	**4,300**	9,916
Other	**1,901**	192
Capital stock (including conversion of debentures)	**8,342**	11,388
Deferred income tax transferred from leasing subsidiaries in 1971	—	12,484
Long-term debt	**49,508**	61,639
Property disposals	**8,215**	7,586
Leasing subsidiaries	**11,932**	—
Sales of subsidiary companies and other investments	**13,061**	2,059
Realization of deferred tax benefit on property disposal	—	6,100
	202,973	204,472
Financial Resources Applied:		
Dividends	**23,324**	22,895
Purchase of Rheingold Corp.	**59,947**	—
Purchase of minority interest in Wilson Sporting Goods Co.	**15,433**	10,915
Other companies purchased for cash	**1,523**	2,497
Plant and equipment	**56,632**	54,047
Long-term debt	**40,631**	40,977
Containers—net	**1,758**	1,269
Leasing subsidiaries (principally relating to deferred taxes)	—	13,028
Other	**5,724**	6,049
	204,972	151,677
Increase (decrease) in working capital	**$ (1,999)**	$ 52,795
Increase (Decrease) in Working Capital, by Element:		
Cash and short-term securities	**$ (6,452)**	$ 24,317
Receivables	**20,356**	9,770
Inventories	**19,999**	(1,580)
Prepaid expenses	**1,970**	1,234
Notes payable	**(6,346)**	33,007
Income taxes	**(4,125)**	(12,888)
Other current liabilities	**(27,401)**	(1,065)
Net increase (decrease) in working capital	**(1,999)**	52,795
Working capital at beginning of year	**150,016**	97,221
Working capital at end of year	**$148,017**	$150,016

See accompanying notes.

Notes to Consolidated Financial Statements

Note 1—Summary of Significant Accounting Policies. PepsiCo's accounting policies are in accordance with generally accepted accounting principles. Outlined below are those policies considered particularly significant for PepsiCo.

Principles of Consolidation. All domestic and foreign subsidiaries, except Rheingold Corp. and leasing subsidiaries, have been consolidated. Rheingold Corp., which was 82 percent owned at December 30, 1972, is carried at cost as described in Note 2. Leasing subsidiaries are carried at equity, with condensed financial information on these companies shown in Note 10.

Foreign Operations. In general, assets and liabilities expressed in foreign currencies are translated into U.S. dollars at year-end exchange rates, except for inventories and fixed assets, which are translated at rates in effect at the time these assets were acquired. Income accounts are translated at rates prevailing during the year, except that inventories charged to cost of sales and depreciation are based on the historical equivalent dollar costs of the related assets. Foreign exchange gains and losses, including those arising from translation, are included in income.

Additional taxes which would result from dividend distributions by foreign subsidiaries to the U.S. parent are provided to the extent dividends are anticipated. All other undistributed foreign earnings, except those of a subsidiary operating in Puerto Rico having a tax exemption, have been reinvested indefinitely in foreign operations. Accordingly, provision has not been made for the additional taxes, not material in amount, that might be payable upon the remittance of these earnings.

Inventories. Inventories are stated at the lower of cost (computed on the average or first-in, first-out method) or net realizable value.

Property, Plant, and Equipment. Land, buildings, machinery and equipment, including improvements to existing facilities, are carried at cost. Depreciation is calculated generally on a straight-line basis over estimated service lives of the respective assets. Maintenance and repairs are charged to expense as incurred.

Valuation of bottles and cases is based on periodic physical inventories of those on-hand and on book records of those with the trade. In-plant and estimated in-trade breakage is charged to cost of sales. Returnable bottles and cases are carried at cost and, in the case of domestic operations where such containers are less prevalent, are reduced to a unit valuation when placed in use.

Goodwill. Costs in excess of net assets attributable to companies purchased since the adoption of Accounting Principles Board Opinion No. 17 in 1970 and certain other companies acquired before that time (totalling approximately $8,000,000), are being amortized over appropriate periods. Other excess costs are not being amortized, since there is no present indication that they have a determinable life.

Marketing Costs. Costs of advertising and other marketing and promotional programs are charged to expense during the year generally in relation to sales, and, except for materials in inventory and prepayments, are fully expensed by the end of the year in which the cost is incurred.

Income Taxes. Deferred taxes arise from timing differences between financial and tax reporting principally relating to depreciation and the recognition of income on certain leases.

Recognition of benefits from investment tax credits is deferred and amortized over the useful lives of the related assets.

PepsiCo includes the operations of U.S. subsidiaries in its consolidated federal income tax return. PepsiCo has the policy of having separate subsidiary groups provide for federal income taxes as if each group filed its own tax return, with the combined leasing subsidiaries considered as a single subsidiary group. In years prior to 1971, leasing subsidiaries had been paid $12,484,000 for the cumulative benefits of their tax losses included in the consolidated income tax return. This amount became payable to PepsiCo, Inc. in 1971. All deferred taxes in excess of those applicable to financial statement income of the combined leasing subsidiaries are included in deferred income taxes in the consolidated financial statements.

Net Income Per Share. Net income per share is calculated by dividing net income by the average number of capital shares and capital share equivalents (qualified stock options) outstanding during the year. The conversion into capital stock of all convertible debentures, after elimination of related interest expense, would result in a dilution of less than 3%.

Leasing Subsidiaries. Income earned on leases and contracts receivable is recognized over their terms on a declining basis in proportion to the related outstanding amounts receivable under the finance lease method of accounting.

Under lease agreements involving rental equipment the operating method of accounting is used. Rental income is recognized principally as rentals become due, less related depreciation and interest expense. Under certain of these leases, depreciation is computed at varying percentages per related agreements which reduces the unamortized investment to estimated residual value at the end of the rental period.

Note 2—Rheingold Corp. In late 1972, 82 percent of the voting common stock of Rheingold Corp. was acquired in a cash tender for $59,947,000. Rheingold's principal activities consist of soft drink (including bottling of PepsiCo products) and brewery operations. PepsiCo has no intention to continue in the brewery business on a long-term basis, and it is anticipated that the financial results of the brewery operations and of their ultimate divestiture will be accounted for as an adjustment of the cost of acquiring the soft drink operations. Information published by Rheingold indicates that its soft drink operations had sales of approximately $70,000,000 in 1971.

The Federal Trade Commission has instituted proceedings against PepsiCo charging that its acquisition of Rheingold violates antitrust laws, citing that a portion of Rheingold's soft drink business, accounting for less than two percent of its sales, consists of the manufacture of concentrates for flavored products. The final outcome of these proceedings cannot be predicted.

Because assumption of control of Rheingold has been delayed and because PepsiCo has not had access to sufficient financial information regarding Rheingold to enable its inclusion in the consolidated financial statements, the investment in Rheingold is carried in the accompanying consolidated balance sheet at cost and the operations of Rheingold are not included in the 1972 consolidated operating results. Based on presently available information, PepsiCo believes that the inclusion of Rheingold's soft drink operations on a pro forma basis for the entire year 1972 would not have a material effect on consolidated operating results.

Note 3—Other acquisitions. In August 1972, PepsiCo acquired Monsieur Henri Wines, Ltd. and related companies for 369,065 of its capital shares in a transaction accounted for as a pooling of interests. The financial statements for 1971 have been restated for this transaction, which had no material effect on the accompanying financial statements.

In December 1972, the acquisition of the minority interest in Wilson Sporting Goods Co. was completed with the merger of Wilson into PepsiCo. Estimated future tax benefits of such merger, net of related costs, have been included in Other Assets, and resulted in a $4,184,000 reduction of the previously recorded goodwill in Wilson.

Note 4—Foreign operations. Total assets and total liabilities of consolidated subsidiaries and branches outside the United States and Puerto Rico at December 30, 1972, were $213,000,000 and $108,000,000, respectively. Net foreign exchange gains, including translation gains, originating primarily from countries subject to recurring currency devaluations, were $2,500,000 in 1972 and $6,000,000 in 1971, before reduction for the effect such devaluations had on related operating results expressed in U.S. dollars. The devaluation of the U.S. dollar in February 1973 has not had a material effect upon PepsiCo.

Note 5—Long-term debt. At December 30, 1972, and December 25, 1971, long-term debt (less current installments) consisted of:

	1972	1971
	(in thousands)	
Floating rate loan notes, 7% at December 30, 1972 (8⅞% at February 28, 1973) due $2,000,000 annually to 1976; $6,000,000 in 1977; $19,000,000 in 1978, 1979 and 1980	$ 69,000	$ 71,000
Revolving credit notes	58,500	11,220
4¾% convertible subordinated debentures due $2,500,000 annually from 1982 to 1995 with the balance due in 1996	50,000	50,000
4½% convertible debentures, due 1981	9,628	13,648
6½% subordinated debentures, due 1988	4,731	35,000
Other	15,194	17,308
	$207,053	$198,176

Revolving credit notes are outstanding under a new agreement executed in December 1972 with a group of banks under which PepsiCo may borrow up to $58,500,000 in U.S. Dollars or Eurocurrencies until December 31, 1976, at which time PepsiCo may convert them to a term loan payable in twelve semi-annual installments commencing June 30, 1977. (Borrowings at December 30, 1972, are in U.S. Dollars.) The notes bear interest at the prime rate of the lending U.S. banks (6% at December 30, 1972) to December 31, 1975, and slightly higher rates in 1976 and later. The rates on Eurocurrency borrowings are based upon each bank's best Eurocurrency rate to prime borrowers. The agreement provides, among other things, for maintenance of minimum working capital and places certain restrictions upon payment of cash dividends. Of consolidated retained earnings at December 30, 1972, approximately $63,000,000 was free of such restrictions.

Note 6—Capital stock and capital in excess of par value. Shares reserved at December 30, 1972, were as follows:

Stock options	446,210
4½% convertible debentures (at $46.50 per share)	207,054
4¾% convertible subordinated debentures (at $63.50 per share)	787,402
Performance share plan	450,000
	1,890,666

At December 30, 1972, options were outstanding on 282,294 shares (of which 69,844 were then exercisable) having an aggregate option price of $17,147,522. The balance of 163,916 shares reserved is available for future grants under the Company's 1964 and 1969 Plans. In 1972 options for 105,758 shares were exercised having an aggregate option price of $4,618,494; options were granted for 151,450 shares having an aggregate option price of $11,042,537, and options for 2,250 shares were cancelled.

PepsiCo shareholders, in 1972, approved the 1972 Performance Share Plan for key executive employees. The Performance Share Committee, appointed by the Board of Directors, may award up to 450,000 performance share units, each unit being equivalent to a share of PepsiCo capital stock. Units, once awarded, are earned only to the extent that PepsiCo achieves stated cumulative growth rates in net income per share over a four-year period. Payments to participants are to be made four years after the date of the award through issuance of PepsiCo capital stock or payment in cash, or combination thereof, as the Committee decides. During 1972, a total of 81,581 performance share units were awarded, all of which were outstanding at December 30, 1972. The cost of the awards made under the Plan is being charged to income ($2,351,000 pre-tax in 1972) over the applicable four-year period.

The increases in capital in excess of par value for 1972 and 1971 (after restatement of 1971 for the pooling of interests with Monsieur Henri) were the excess of proceeds or conversion price over par value of shares issued for:

	Shares		Amount	
	1972	1971	1972	1971
			(in thousands)	
Stock option plans	105,758	94,619	$4,601	$ 3,082
Conversion of debentures	86,439	191,962	3,709	8,168
Other	—	1,985	—	90
	192,197	288,566	$8,310	$11,340

Note 7—Leases and commitments. The Company and its subsidiaries lease office space, plant and warehouse facilities, vehicular equipment and other personal property under leases expiring at various dates to 1993 having minimum aggregate annual rentals of $7,500,000 (exclusive of insurance, taxes and repairs) in 1973.

At December 30, 1972, the Company and its subsidiaries were contingently liable under loan guarantees and repurchase agreements, aggregating $20,600,000. The Company is also contingently liable for the repurchase of vending equipment acquired by franchisees, on which $2,700,000 was unpaid at December 30, 1972.

Note 8—Pensions. PepsiCo and its subsidiaries have several non-contributory pension plans covering substantially all domestic employees and certain of its employees outside the U.S. The Company's policy is to accrue and fund normal cost plus interest on unfunded prior service cost. Substantially all vested benefits have been funded. Pension expense was approximately $8,800,000 in 1972 and $8,000,000 in 1971.

Note 9—Litigation. The Company is involved in litigation concerning Rheingold (see Note 2), the matters described below, and various other matters, but believes that litigation to which it is a party will not have a material effect upon the accompanying consolidated financial statements.

A number of private civil antitrust actions (in most cases purporting to be class actions) are pending against the Company's subsidiary, Frito-Lay, Inc., certain of its competitors and, in some instances, the Company, charging violations of antitrust laws in connection with sales of certain snack foods in California, Arizona and Nevada. All these actions are in preliminary stages and their outcome cannot be predicted with certainty.

Federal Trade Commission complaints are pending against eight soft drink manufacturers, including the Company and its principal competitors, alleging that the territorial restrictions imposed on franchised soft drink bottlers in the United States unreasonably restrain trade. No monetary damages are sought. Management and counsel cannot evaluate the future financial or business effect, if any, on its domestic concentrate and syrup manufacturing or soft drink bottling business in the event an order is issued declaring such territorial restriction provisions to be illegal and such order is ultimately upheld by the courts.

The Company intends a vigorous defense of these matters.

Note 10—Leasing Subsidiaries. Condensed combined financial statements of the leasing subsidiaries shown below at December 31, 1972, and 1971 and for the years then ended include activities of PepsiCo Leasing Corporation (PLC) and other leasing subsidiaries of PepsiCo. Also included are Lease Plan, Inc. (LPI) and Executive Car Leasing Company (ECLC), formerly a subsidiary of PLC, until dates of their sale.

Condensed Statement of Financial Position	1972	1971
	(in thousands)	
Cash	$ 14,946	$ 28,716
Leases and contracts receivable	167,055	285,997
Rental equipment, less accumulated depreciation (1972—$26,929,000; 1971—$22,949,000)	75,175	86,058
Other assets, including intangibles	8,751	19,241
Assets	265,927	420,012
Secured notes payable	93,798	229,160
Other notes payable	79,974	67,277
Accounts payable and accruals	17,448	24,997
Deferred federal income tax	1,215	8,868
Deferred investment tax credit	1,300	334
Liabilities	193,735	330,636
PepsiCo equity in leasing subsidiaries	$ 72,192	$ 89,376
Represented by:		
Capital stock and surplus	$ 24,149	$ 27,278
Retained earnings	12,033	11,646
Net worth of leasing subsidiaries	36,182	38,924
Interest-bearing advances payable to PepsiCo (including $32,500,000 in 1972 and $34,000,000 in 1971 of subordinated notes due in 1980 and 1983)	34,315	41,534
Payable to PepsiCo	1,695	8,918
	$ 72,192	$ 89,376

Condensed Statement of Income & Retained Earnings	1972	1971
	(in thousands)	
Leasing and other income	$63,861	$61,934
Operating and administrative expenses (including depreciation: 1972—$13,615,000, 1971—$10,088,000)	49,262	49,895
Interest expense (including $2,096,000 in 1972 and $3,349,000 in 1971 paid to PepsiCo)	13,291	12,649
Total expenses	62,553	62,544
Income (loss) from continuing operations	1,308	(610)
Income from discontinued operations	2,298	2,083
Income before provision for federal and foreign income taxes	3,606	1,473
Provision for federal and foreign income taxes (less investment tax credit—$538,000 in 1972 and $100,000 in 1971)	1,071	655
Net income	2,535	818
Retained earnings at beginning of year	11,646	11,161
Retained earnings of LPI at date of sale	(1,762)	—
Retained earnings of companies consolidated with PepsiCo as of January 1, 1972	(361)	—
Dividend paid	(25)	(333)
Retained earnings at end of year	$12,033	$11,646

Condensed Statement of Changes in Financial Position	1972	1971
	(in thousands)	
Financial Resources Provided (Applied):		
Operations:		
Net income	$ 2,535	$ 818
Depreciation and amortization	16,549	13,013
Deferred federal income taxes	793	533
Advances from (to) PepsiCo	(14,467)	12,210
Property and equipment disposals and other	17,531	9,596
Property and equipment acquired	(33,528)	(42,429)
Sale of ECLC	10,000	—
Net funds of companies sold in 1972	(5,937)	—
Net deficit in funds of companies consolidated with PepsiCo in 1972	3,868	—
Deferred income tax transferred to PepsiCo	—	(12,484)
Decrease in Funds	$ (2,656)	$ (18,743)

Notes to condensed financial statements

a. See Note 1—Summary of Significant Accounting Policies.

b. In February 1972, PepsiCo sold its subsidiary, LPI, for $6,700,000. Gain on sale of LPI is included in PepsiCo's consolidated income. In December 1972, PLC sold its subsidiary, ECLC, for $10,000,000. These transactions did not result in a material gain or loss. Before tax results of 1972 operations through dates of sale and sale of ECLC are presented as income from discontinued operations and 1971 has been accordingly restated. The above condensed statement of financial position for 1971 includes assets of $159,601,000 and liabilities of $145,856,000 for companies sold.

c. Maintenance revenues, previously credited to expense, have been included above as leasing and other income and 1971 has been reclassified to reflect $6,722,000 of such revenues.

d. Several small subsidiaries, previously included in the condensed financial statements, were consolidated with PepsiCo for 1972. Their 1971 revenues and income before provision for federal income taxes were $4,944,000 and $321,000, respectively.

e. Secured notes payable are repayable generally as related leases and contracts receivable are collected.

f. PepsiCo has guaranteed $10,000,000 of revolving credit notes and $6,500,000 of commercial paper of Pepsi-Cola Equipment Corporation, which is engaged in providing leasing and financing services to Pepsi-Cola franchise bottlers. These obligations are included in other notes payable and are not collateralized.

g. In January 1973, PLC entered into a two-year unsecured revolving credit agreement (renewable annually) with a group of banks under which it may borrow up to $130,000,000. Borrowings under this agreement have been used to retire substantially all PLC's secured and other notes payable.

Borrowings under this agreement may be converted into a five-year term loan on completion of the two-year financing period. Interest is computed at ¼ % above prime rate during the revolving period and first year of the term note, and ½ % above prime thereafter. A commitment fee of ½ % is payable on the unused portion of the revolving credit. The agreement provides for a minimum borrowing base and a debt-to-equity ratio as a condition for loans, and restricts granting of liens and security interest and dividend and other distributions.

h. Substantially all cash is subject to withdrawal restrictions relating to formal or informal compensating balance arrangements with lenders.

Report of Certified Public Accountants

Board of Directors and Shareholders
PepsiCo, Inc.

We have examined the accompanying consolidated balance sheet of PepsiCo, Inc. and subsidiaries at December 30, 1972, and the related consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We have previously made a similar examination of the financial statements for the prior year.

In our opinion, the statements mentioned above present fairly the consolidated financial position of PepsiCo, Inc. and subsidiaries at December 30, 1972, and December 25, 1971, and the consolidated results of their operations and the consolidated changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

Arthur Young & Company

277 Park Avenue
New York, N. Y.
February 26, 1973

Historical Financial Information

	1972	1971
Operating Results (in thousands except per share)		
Sales and revenues	**$1,400,115**	$1,239,127
U.S. and foreign income taxes	**58,241**	50,583
Income after taxes (before extraordinary items)	**71,718**	63,031
Per common share	**$ 3.05**	$ 2.71
Cash dividends paid (including pooled companies prior to merger)	**23,324**	22,895
Per common share	**$ 1.00**	$ 1.00
Additions to plant	**56,632**	54,047
Depreciation and amortization	**33,996**	30,077
Year-End Position (in thousands except per share)		
Working capital	**148,017**	150,016
Equity in leasing subsidiaries	**72,192**	89,376
Property, plant and equipment—net	**322,828**	301,928
Total assets	**935,552**	833,802
Long-term debt	**207,053**	198,176
Stockholders' equity	**440,768**	384,032
Per share	**$18.70**	$16.43
Statistics		
Employees	**40,000**	37,000
Stockholders	**46,000**	47,500
Average shares of common stock outstanding (in thousands)	**23,525**	23,248
Common shares outstanding at year-end (in thousands)	**23,564**	23,372
Ratios		
Current assets to current liabilities	**1.6 to 1**	1.8 to 1
Return on stockholders' equity	**16.3%**	16.4%
Return on sales (including leasing operations)	**4.9%**	4.8%

This statement has been retroactively adjusted for (a) companies acquired in transactions accounted for as poolings of interest (except for Monsieur Henri Wines, Ltd., acquired in 1972, which did not have a material effect on prior years and for which 1971 was restated solely for comparison with 1972) and for (b) a two-for-one stock split in 1967. All sales of Wilson Sporting Goods Co. have been included from the time of purchase in February 1970, and earnings have been included in proportion to PepsiCo's ownership.

1970	1969	1968	1967	1966	1965
$1,122,593	$949,390	$848,265	$758,337	$691,276	$585,059
41,200	42,000	39,200	29,200	28,800	26,400
56,053	51,884	46,454	42,531	40,352	35,496
$ 2.49	$ 2.33	$ 2.10	$ 1.93	$1.85	$1.64
22,594	21,758	19,785	18,993	17,192	18,121
$ 1.00	$ .975	$ .90	$ .875	$ .80	$ .80
63,442	70,235	40,414	38,621	37,497	32,491
26,030	23,832	22,631	21,501	18,798	15,740
97,165	61,323	95,408	93,155	88,649	58,952
76,348	66,012	22,364	18,776	14,563	15,366
274,038	229,736	198,257	175,685	159,747	121,406
757,895	538,991	471,916	417,741	402,842	300,805
177,514	91,112	68,273	73,505	79,621	23,571
331,240	288,659	264,163	235,511	208,916	185,188
$14.58	$12.90	$11.90	$10.66	$9.54	$8.53
36,000	30,000	28,000	25,000	19,000	19,000
49,000	52,000	51,000	49,000	47,000	47,500
22,547	22,286	22,144	22,021	21,816	21,706
22,715	22,386	22,196	22,100	21,906	21,706
1.5 to 1	1.4 to 1	1.7 to 1	1.9 to 1	1.8 to 1	1.7 to 1
16.9%	18.0%	17.6%	18.1%	19.3%	19.2%
4.7%	5.2%	5.3%	5.5%	5.7%	5.9%

PepsiCo, Inc. Directors

Donald M. Kendall*
Chairman of the Board and Chief Executive Officer, PepsiCo, Inc.

Herman W. Lay*
Chairman of the Executive Committee, PepsiCo, Inc.

Andrall E. Pearson*
President, PepsiCo, Inc.

Charles Allen, Jr.*
Senior Partner, Allen & Company, Investment Bankers

Angus S. Alston*
President, Southwestern Bell Telephone Co.

Victor A. Bonomo
President and Chief Executive Officer, Pepsi-Cola Company and Vice President, Beverage Operations (U.S.), PepsiCo, Inc.

George Champion*
President of Economic Development Council of New York City, Inc.

Bernard J. Lasker
Senior Partner, Lasker, Stone & Stern, Securities Brokerage Firm

Harold R. Lilley
President, Frito-Lay, Inc. and Vice President, Food Operations (U.S.), PepsiCo, Inc.

James M. Roche*
Director of General Motors Corporation

Herman A. Schaefer
Executive Vice President, Finance and Administration, PepsiCo, Inc.

Robert H. Stewart III*
Chairman of the Board, First International Bancshares, Inc.

Peter K. Warren
President, PepsiCo International and Vice President, International Operations, PepsiCo, Inc.

*Member of Executive Committee

Executive Offices

PepsiCo, Inc.
Purchase, New York 10577

Principal Divisions and Subsidiaries:
Pepsi-Cola Company
Purchase, New York 10577
Victor A. Bonomo, *President*

Frito-Lay, Inc.
Frito-Lay Tower, Exchange Park
Dallas, Texas 75235
Harold R. Lilley, *President*

Monsieur Henri Wines, Ltd.
131 Morgan Avenue, Brooklyn, New York 11237
Maurice Feinberg, *President*

PepsiCo International
Puchase, New York 10577
Peter K. Warren, *President*

PepsiCo Leasing
101 Hartwell Avenue, Lexington, Massachusetts 02173
Stillman B. Brown, *President*

PepsiCo Transportation
1925 National Plaza, Tulsa, Oklahoma 74151
Richard J. Caley, *President*

Wilson Sporting Goods Co.
2233 West Street, River Grove, Ill. 60171
Thomas P. Mullaney, *President*

Annual Meeting
The Annual Meeting of stockholders will be held at the offices of the Corporation, Purchase, New York, at 10:00 a.m. (E.D.T.) Wednesday, May 2, 1973. Proxies for the meeting will be solicited by management in a separate Proxy Statement. This report is not a part of such proxy solicitation and is not to be used as such.

Transfer Agents
Marine Midland Bank—New York, New York, N.Y.
First Jersey National Bank, Jersey City, N.J.
Harris Trust and Savings Bank, Chicago, Ill.
First National Bank in Dallas, Dallas, Texas
The Fulton National Bank of Atlanta, Atlanta, Ga.

Registrars
The Chase Manhattan Bank N.A., New York, N.Y.
The First National Bank of Chicago, Chicago, Ill.
Republic National Bank of Dallas, Dallas, Texas
The First National Bank of Atlanta, Atlanta, Ga.

Auditors
Arthur Young & Company, New York, N.Y.

Officers

Donald M. Kendall
Chairman of the Board and Chief Executive Officer

Herman W. Lay
Chairman of the Executive Committee

Andrall E. Pearson
President

Herman A. Schaefer
Executive Vice President, Finance and Administration

Robert J. Abernethy
Vice President, Manufacturing

Victor A. Bonomo
Vice President, Beverage Operations (U.S.)

Richard J. Caley
Vice President, Transportation

Cartha D. DeLoach
Vice President, Corporate Affairs

Agustin Edwards
Vice President, Foods International

Gerald J. Fischer
Vice President, Corporate Planning and Control

Harold R. Lilley
Vice President, Food Operations (U.S.)

Harvey Luppescu
Vice President, Tax Administration

Thomas P. Mullaney
Vice President, Sporting Goods

Harvey C. Russell
Vice President, Community Affairs

Gordon A. Sutton
Vice President, Personnel

Peter K. Warren
Vice President, International Operations

George Williamson
Vice President, Finance

W. Warren Lee
Controller

Joseph Neubauer
Treasurer

James G. Frangos
General Counsel

Edward V. Lahey, Jr.
Secretary and Assistant General Counsel

W. Lamar Lovvorn
Assistant Secretary

John J. Fennessey, Jr.
Assistant Treasurer

William T. Leitner
Assistant Treasurer

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